

**OAO AK TRANSNEFT
IFRS CONSOLIDATED
INTERIM CONDENSED
FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2011**

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Independent Auditors' Report on Review

Board of Directors

ОАО АК Транснефт

Introduction

We have reviewed the accompanying IFRS consolidated interim condensed statement of financial position of ОАО АК Транснефт (the "Company") and its subsidiaries (the "Group") as at 31 March 2011, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory notes (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 31 March 2011 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 were audited by other auditors whose report dated 31 May 2011 expressed an unmodified opinion on those statements.

ZAO KPMG

ZAO KPMG
25 July 2011

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
(UNAUDITED) AS AT 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

	Notes	31 March 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets		1,536	1,539
Property, plant and equipment	5	1,245,604	1,214,355
Available-for-sale financial assets		332	336
Investments in associates and jointly controlled entities	6	35,245	4,835
VAT assets	9	20,545	14,888
Receivables and prepayments	9	560	534
Other financial assets	7	16,898	-
Total non-current assets		1,320,720	1,236,487
Current assets			
Inventories	8	20,110	17,272
Receivables and prepayments	9	40,833	26,508
VAT assets	9	39,080	33,412
Prepaid income tax		1,104	3,242
Other financial assets	7	55,186	51,061
Cash and cash equivalents	10	250,233	283,653
Total current assets		406,546	415,148
Total assets		1,727,266	1,651,635
EQUITY AND LIABILITIES			
Equity			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		817,880	732,864
Attributable to the shareholders of OAO AK Transneft		857,661	772,645
Non-controlling interests		34,523	33,792
Total equity		892,184	806,437
Non-current liabilities			
Borrowings	12	545,386	573,148
Deferred tax liabilities	13	34,050	37,303
Provisions for liabilities and charges	14	116,794	123,579
Total non-current liabilities		696,230	734,030
Current liabilities			
Trade and other payables	15	123,603	97,966
Current income tax payable		5,085	2,547
Borrowings	12	10,164	10,655
Total current liabilities		138,852	111,168
Total liabilities		835,082	845,198
Total equity and liabilities		1,727,266	1,651,635

Approved on 15 July 2011 by:

N.P. Tokarev

President

M.V. Russkikh

General director of OOO Transneft Finance,
a specialized organization, which performs the
accounting function for OAO AK Transneft

The accompanying notes set out on pages 8 to 20 are an integral part of these financial statements

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 31 March 2011	Three months ended 31 March 2010
Sales	16	149,181	102,785
Operating expenses	17	(98,412)	(60,738)
Operating profit		50,769	42,047
Financial items:			
Exchange gains		29,177	17,734
Exchange loss		(8,480)	(10,971)
Interest income	18	3,755	620
Interest expense	18	(6,077)	(4,054)
Total financial items		18,375	3,329
Share of profit from associates and jointly controlled entities	6	30,438	360
Profit before income tax		99,582	45,736
Income tax expense	13	(14,124)	(10,899)
Profit for the period		85,458	34,837
Other comprehensive income after tax			
Currency translation differences		166	(25)
Fair value (losses) / gains on available-for-sale financial assets, net of tax		(8)	22
Total comprehensive income		85,616	34,834
Profit attributable to:			
Shareholders of OAO AK Transneft		84,858	33,694
Non-controlling interests		600	1,143
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		85,016	33,691
Non-controlling interests		600	1,143

Approved on 25 July 2011 by:

N.P. Tokarev

M.V. Russkikh



President

General director of OOO Transneft Finance,
a specialized organization, which performs the
accounting function for OAO AK Transneft

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

Notes	Three months ended 31 March 2011	Three months ended 31 March 2010
Cash flows from operating activities		
Cash receipts from customers	157,208	107,541
Cash paid to suppliers and employees, and taxes other than profit tax	(102,806)	(54,436)
Interest paid	(8,223)	(7,879)
Income tax paid	(12,723)	(6,164)
Tax refunds	8,539	2,793
Other cash used in operating activities	(580)	9
Net cash from operating activities	41,415	41,864
Cash flows used in investing activities		
Purchase of property, plant and equipment	(49,214)	(41,407)
Proceeds from sales of property, plant and equipment	38	27
Interest and dividends received	1,906	3,059
Loans issued	(5,221)	-
Purchase of notes	(37,901)	(20,000)
Sales notes	22,166	156
Other cash (used) proceeded in investing activities	(1,120)	619
Net cash used in investing activities	(69,346)	(57,546)
Cash flows used in financing activities		
Repayment of long and short-term borrowings	(27)	(3)
Payment of finance lease obligations	(21)	(972)
Net cash used in financing activities	(48)	(975)
Cash decrease due to deviation of currency exchange rate	(5,441)	(5,735)
Net decrease in cash and cash equivalents	(33,420)	(22,392)
Cash and cash equivalents at the beginning of the period	10 283,653	283,658
Cash and cash equivalents at the end of the period	10 250,233	261,266

Approved on 25 July 2011 by:

N.P. Tokarev

President

M.V. Russtkikh

General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft



OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the shareholders of OAO AK Transneft					Non-controlling interests	Total equity
	Share capital	Share premium reserve	Merger reserve	Retained earnings	Total		
Balance at 1 January 2010	308	52,553	(13,080)	615,171	654,952	26,444	681,396
Profit for the period	-	-	-	33,694	33,694	1,143	34,837
Fair value gain on available-for-sale financial assets, net of tax	-	-	-	22	22	-	22
Currency translation differences, net of tax	-	-	-	(25)	(25)	-	(25)
Total comprehensive income for the period	-	-	-	33,691	33,691	1,143	34,834
Balance at 31 March 2010	308	52,553	(13,080)	648,862	688,643	27,587	716,230
Balance at 1 January 2011	308	52,553	(13,080)	732,864	772,645	33,792	806,437
Profit for the period	-	-	-	84,858	84,858	600	85,458
Fair value loss on available-for-sale financial assets, net of tax	-	-	-	(8)	(8)	-	(8)
Currency translation differences, net of tax	-	-	-	166	166	-	166
Total comprehensive income for the period	-	-	-	85,016	85,016	600	85,616
Additional emission of shares by a subsidiary	-	-	-	-	-	131	131
Balance at 31 March 2011	308	52,553	(13,080)	817,880	857,661	34,523	892,184

Approved on 15 July 2011 by:

N.P. Tokarev

M.V. Russtkikh



President

General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011

(in millions of Russian roubles, if not stated otherwise)

1 NATURE OF OPERATIONS

OA O AK Transneft (the "Company") was established as an open joint stock company and incorporated on 14 August 1993 by the Russian Government Resolution No. 810 under Presidential Decree No. 1403 dated 17 November 1992. The Company's registered office is at 119180 Moscow, ul. Bolshaya Polyanka 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 49,988 km at 31 March 2011 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,947 km as at 31 March 2011. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the three months ended 31 March 2011, the Group transported 115.0 million tonnes of crude oil to domestic and export markets (three months ended 31 March 2010 – 113.2 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 7.7 million tonnes of oil products (7.2 million tonnes for three months ended 31 March 2010).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. There can be different developments in the economic environment which can have a varying impact on the Group's operations and management is unable to predict their potential effect on the financial position of the Group. The impact of recent economic crisis on the Group's operations is limited due to the fact that prices for its services are regulated by the Government. Furthermore, the Group's monopoly position on the Russian oil and oil product pipeline transportation market ensures sustainable demand for the Group's services. Group management believes that cash flows from ongoing operations are sufficient to finance the Group's current operations and to service its debt obligations.

Furthermore, the tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

The consolidated interim condensed financial statements is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 28.4290 and 30.4769 as at 31 March 2011 and 31 December 2010, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 40.0223 and 40.3331 as at 31 March 2011 and 31 December 2010, respectively.

New standards and interpretations

Implementation of the new standards and interpretations that are mandatory for the Group's accounting periods beginning on 1 January 2011 has not significantly impacted the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning after 1 January 2011 and which the Group has not early adopted. Information concerning the most significant standards and interpretations is disclosed in the consolidated financial statements for the year ended 31 December 2010.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2010.

OAO AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Line fill	Assets under construction including prepayments	Total
At 1 January 2011						
Cost	121,198	748,012	451,762	77,131	277,001	1,675,104
Accumulated depreciation and impairment	(32,307)	(244,510)	(183,932)	-	-	(460,749)
Net book value at 1 January 2011	88,891	503,502	267,830	77,131	277,001	1,214,355
Depreciation	(979)	(8,597)	(10,364)	-	-	(19,940)
Additions (including prepayments)	-	-	-	81	60,468	60,549
Transfers from assets under construction	689	2,516	4,427	-	(7,632)	-
Net change in dismantlement provision	-	(9,561)	-	-	549	(9,012)
Disposals/retirements at cost	(29)	(329)	(424)	(88)	-	(870)
Accumulated depreciation and impairment on disposals/retirements	15	249	258	-	-	522
Net book value at 31 March 2011	88,587	487,780	261,727	77,124	330,386	1,245,604
At 31 March 2011						
Cost	121,858	740,638	455,765	77,124	330,386	1,725,771
Accumulated depreciation and impairment	(33,271)	(252,858)	(194,038)	-	-	(480,167)
Net book value at 31 March 2011	88,587	487,780	261,727	77,124	330,386	1,245,604

OAo AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Line fill	Assets under construction including prepayments	Total
At 1 January 2010						
Cost	109,575	691,560	397,385	76,372	115,261	1,390,153
Accumulated depreciation and impairment	(28,891)	(215,519)	(148,343)	-	-	(392,753)
Net book value at 1 January 2010	80,684	476,041	249,042	76,372	115,261	997,400
Depreciation	(813)	(6,654)	(8,439)	-	-	(15,906)
Additions (including prepayments)	-	-	688	268	45,551	46,507
Transfers from assets under construction	544	1,893	10,066	-	(12,503)	-
Net change in dismantlement provision	-	19,018	-	-	535	19,553
Disposals/retirements at cost	(74)	(30)	(1,363)	(181)	-	(1,648)
Accumulated depreciation and impairment on disposals/retirements	41	22	1,291	-	-	1,354
Net book value at 31 March 2010	80,382	490,290	251,285	76,459	148,844	1,047,260
At 31 March 2010						
Cost	110,045	712,441	406,776	76,459	148,844	1,454,565
Accumulated depreciation and impairment	(29,663)	(222,151)	(155,491)	-	-	(407,305)
Net book value at 31 March 2010	80,382	490,290	251,285	76,459	148,844	1,047,260

Line fill represents RUB 70,094 of crude oil and RUB 7,030 of oil products as at 31 March 2011 (as at 31 December 2010 – RUB 70,050 of crude oil and RUB 7,081 of oil products).

During the three months ended 31 March 2011, borrowing costs net of interest income on temporary investment of borrowings disclosed in Note 18 in the amount of RUB 3,160 were capitalised as part of cost of assets under construction (for the three months ended 31 March 2010 – RUB 3,026).

6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In January 2011 the Group's jointly controlled entity Omirico Ltd sold 100% of OOO Primorsk Trade Port ("PTP") to OAO Novorossiysk Commercial Sea Port ("NCSP") for US Dollars 2,153 million (RUB 64,406 at the CBR exchange rate at the date of transaction). As a result of this transaction Group recognized a gain on disposal of PTP in the amount of RUB 29,034 which is presented in the statement of comprehensive income as Share of profit from investments in associates and jointly controlled entities.

At the same time Omirico Ltd indirectly acquired a controlling interest (50.1%) in NCSP. As a result of this transaction Group obtained the effective interest of 25.05% in NCSP. As of 31 March 2011 the carrying value of Group's investment in NCSP is 33 076 million. The principal activities of NCSP and its subsidiaries are stevedoring and additional port services, and tug and towing services and bunkering.

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

6 INVESTMENT IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Summarised financial information of associates and jointly controlled entities was as follows:

	31 March 2011	31 December 2010
Assets	245,313	27,647
Liabilities	(99,079)	(16,463)
	Three months ended	Three months ended
	31 March 2011	31 March 2010
Revenue	81,641	11,694
Profit for the period	63,947	1,818

7 OTHER FINANCIAL ASSETS

During the three months ended 31 March 2011 following other long-term financial assets were purchased:

- zero-coupon note which are subject to repayment on demand but not earlier than October 2012. The note was purchased for a consideration of RUB 1,000, has a nominal value and carrying value of RUB 1,095 and RUB 1,001 as at 31 March 2011 respectively;
- zero-coupon notes which are subject to repayment on demand but not earlier than April – June 2012. The notes were purchased for a consideration of USD 386 million (RUB 11,278 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 405 million and carrying value of RUB 10,965 (at the CBR exchange rate as at 31 March 2011);
- loan to Omirico Ltd was issued. Loan amounts to USD 173.5 million (RUB 5,221 at the CBR exchange rate effective at the issuance date), carrying value of RUB 4,932 (at the CBR exchange rate as at 31 March 2011). Interest rate is 5.27% per annum. The loan is due in 5 years. The loan and interest accrued should be paid at the date of repayment.

During the three months ended 31 March 2011 following short-term financial assets were purchased:

- zero-coupon notes which are subject to repayment on demand but not earlier than April – December 2011. The notes were purchased for a consideration of RUB 17,159, have a nominal value and carrying value of RUB 17,847 and RUB 17,196 as at 31 March 2011 respectively;
- zero-coupon notes which are subject to repayment on demand but not earlier than April – December 2011. The notes were purchased for a consideration of USD 294 millions (RUB 8,464 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 300 million and carrying value of RUB 8,363 (at the CBR exchange rate effective as at 31 March 2011).

According to IAS 39 *Financial Instruments: Recognition and Measurement* these notes and loans were classified as loans and receivables and the Group does not intend to dispose these notes prior to the maturity date.

8 INVENTORIES

	31 March 2011	31 December 2010
Materials and supplies	12,210	10,012
Sundry goods for resale	7,886	7,042
Other items	14	218
	20,110	17,272

Materials and supplies are presented net of provisions for obsolescence of RUB 392 as at 31 March 2011 (as at 31 December 2010 – RUB 364).

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RUB 2 as at 31 March 2011 (as at 31 December 2010 – RUB 1).

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	31 March 2011	31 December 2010
Non-financial assets		
Other long-term receivables	560	534
Total long-term receivables	560	534

OAO AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

	31 March 2011	31 December 2010
Short-term receivables		
Financial assets		
Trade receivables	15,677	1,811
Other receivables	12,006	11,210
less: provision for doubtful debts	(3,104)	(3,265)
Total financial assets	24,579	9,756
Non-financial assets		
Prepayments and advances and other non-financial assets	16,254	16,752
Total receivables	40,833	26,508
VAT assets		
	31 March 2011	31 December 2010
Recoverable VAT related to construction projects	23,223	17,893
Recoverable VAT related to ordinary activity	36,402	30,407
Total VAT assets	59,625	48,300
Less: short-term VAT	(39,080)	(33,412)
Long-term VAT	20,545	14,888

10 CASH AND CASH EQUIVALENTS

	31 March 2011	31 December 2010
Balances denominated in Russian roubles	162,569	199,701
Balances denominated in US dollars	74,294	75,700
Balances denominated in Euro	13,192	8,157
Balances denominated in other currency	178	95
	250,233	283,653

11 DIVIDENDS

In June 2011 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2010 in the amount of RUB 1,223 (preferred shares – RUB 489, ordinary shares – RUB 734) at the annual general meeting of shareholders. The whole amount of dividends should be paid within 60 days from the date of approval.

In June 2010 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2009 in the amount of RUB 973 (preferred shares – RUB 389, ordinary shares – RUB 584). The whole amount of dividends was paid in December 2010.

12 BORROWINGS

	31 March 2011	31 December 2010
Borrowings and loans	555,550	583,803
Less: current borrowings and loans	(10,164)	(10,655)
	545,386	573,148
Maturity of non-current borrowings and loans		
Due for repayment:		
Between one and five years	231,245	236,378
After five years	314,141	336,770
	545,386	573,148

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

13 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Income tax expense in the consolidated interim condensed financial statements is accrued based on full-year effective rate applied to the pre-tax income of the interim period.

14 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2011	31 December 2010
Dismantlement provision	109,378	116,202
Pension provision	7,416	7,377
	116,794	123,579

Dismantlement provision

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 7.39% per annum (31 December 2010 – 7.52% per annum).

Should the nominal average rate increase/ (decrease) by 1%, dismantlement provision would (decrease)/ increase by RUB (14,355)/17,729 as at 31 March 2011 accordingly (RUB (14,794)/18,230 as at 31 December 2010 accordingly).

Pension provision

Under collective agreements with Group's employees, an amount ranging from one to five months final salary is payable upon retirement to those who have worked for the Group for more than three years. Also under collective agreements with the employees the Group provides regular payments to those retired employees who have not entered in an agreement with the Non-state pension fund of the Group, and an amount ranging from one to five months minimal salary is payable to retired employees for anniversary milestones and to cover funeral costs. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 *Employee Benefits*. For the calculation of obligations the projected unit method was applied.

Service cost, past service cost and actuarial (profit) / loss amounting to RUB 88 and RUB 875 for the three months ended 31 March 2011 and 2010, respectively, are included in staff costs in the consolidated interim condensed statement of comprehensive income.

15 TRADE AND OTHER PAYABLES

	31 March 2011	31 December 2010
Trade payables	51,614	32,447
Other payables	9,022	6,085
Total financial payables	60,636	38,532
Advances received for oil and oil product transportation services	25,699	28,948
Accruals	22,663	19,814
VAT output tax payable	12,892	9,049
Other taxes payable	1,713	1,623
Total payables	123,603	97,966

OAO AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2011
(in millions of Russian roubles, if not stated otherwise)

16 SALES

	Three months ended 31 March 2011	Three months ended 31 March 2010
Revenues from crude oil transportation services		
Domestic tariff	47,420	37,903
Export tariff	61,780	52,532
Total revenues from crude oil transportation services	109,200	90,435
Revenues from crude oil sales	25,092	1,836
Revenues from oil products transportation services	8,117	7,538
Other revenues	6,772	2,976
	149,181	102,785

Revenues from crude oil sales for the three months ended 31 March 2011 includes, in general, revenues from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement the oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases the oil under the contract signed in April 2009 with OAO Rosneft (see Note 20).

17 OPERATING EXPENSES

	Three months ended 31 March 2011	Three months ended 31 March 2010
Cost of oil sold	24,493	1,785
Depreciation	19,803	16,049
Staff costs:		
Salaries and pension expense	17,670	16,366
Social Funds contributions	4,132	2,836
Social expenses	504	544
Energy	9,770	8,098
Materials	5,642	3,522
Repairs services and maintenance of relevant technical condition of pipeline	1,808	2,375
Transportation of oil using railways	7,038	3,689
Other	7,552	5,474
	98,412	60,738

18 INTEREST INCOME AND INTEREST EXPENSE

	Three months ended 31 March 2011	Three months ended 31 March 2010
Interest income on cash and cash equivalents	3,699	3,654
Interest income from other investments	1,214	644
Other interest income	63	10
Total interest income	4,976	4,308
less interest income on the temporary investment of borrowings	(1,221)	(3,688)
Total interest income recognised in profit or loss	3,755	620

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18 INTEREST INCOME AND INTEREST EXPENSE (continued)

	Three months ended	Three months ended
	31 March 2011	31 March 2010
Interest expense on borrowing cost	8,126	8,961
Provisions for asset retirement obligations: unwinding of the present value discount	2,185	1,648
Leasing unwinding of the present value discount	-	39
Other interest expenses	147	120
Total interest expenses	10,458	10,768
Less capitalised finance costs	(4,381)	(6,714)
Total interest expenses recognised in profit or loss	6,077	4,054

19 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

Legal proceedings

Some of companies of the Group were involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or claims outstanding at 31 March 2011, which could have a material adverse effect on the results of operations or financial position of the Group.

In October 2010 the arbitrary court of Nijnii Novgorod region made a decision to reimburse to OOO Rybhoz Borok its losses in the amount of RUB 1,187 which were a result of severe damage to the oil product pipeline which took place in March 2007. In March 2011 the First arbitrary court changed the above decision of the arbitrary court of Nijnii Novgorod region and made a decision to fine the company of the Group and reimburse to OOO Rybhoz Borok its losses in the amount of RUB 992. In July 2011 the Federal arbitrary court of Volgo-Vyatskiy federal district made a decision to remain the above decisions without changes. The company of the Group is going to submit a request to change the above decisions to the Supreme Arbitration court of Russian Federation. As the Management of the Group is unable to estimate reliably the ending date of the proceeding and its influence on the consolidated financial statements of the Group, it has not provided for a possible reimbursement of losses to OOO Rybhoz Borok in these consolidated financial statements.

20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls its operations through Board of directors represented by the Ministry of Energy, other Federal bodies (professional agents), and independent directors as at 31 March 2011. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 31 March 2011 and 31 December 2010 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company (holds 7% of the shares of the CPC-R and 7% of the shares of CPC-K), 24% of the shares of the CPC-R and 24% of the shares of CPC-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as a trustee over the shares of the above entities.

The Group's transactions with other state-controlled entities occur in the normal course of business and include, but are not limited to the following: purchases of electric energy, transportation of oil and oil products and transactions with banks.

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20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The Group had the following significant transactions with state-controlled entities:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Revenue from oil transportation services	38,411	28,215
OAO Rosneft and its subsidiaries	32,474	23,038
OAO Gazprom and its subsidiaries	5,792	4,959
Others	145	218
Revenue from oil products transportation services	3,009	2,287
OAO Rosneft and its subsidiaries	797	553
OAO Gazprom and its subsidiaries	2,212	1,734
Purchases of oil (OAO Rosneft)	22,303	-
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	6,757	5,105
Electricity expenses	328	88
Interest income from other financial assets	1,181	644

Transactions with the state include taxes which are detailed in the consolidated interim condensed statement of financial position, and in profit and loss in the consolidated interim condensed statement of comprehensive income.

During the period ended 31 March 2011 and 31 March 2010, Group had following transactions with associates and jointly controlled entities:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Revenue	262	116
Purchases of goods and services	6,785	7,540

At the 31 March, 2011 and 31 December 2010, Group had following accounts with related parties and associates:

	31 March 2011	31 December 2010
Trade and other receivables	1,077	1,456
Trade and other payable	720	465
Loan issued	4,932	-

Key management personnel compensation

Key management personnel (the members of the Board of directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consists of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Boards of Directors of Company are subject to approval by the General Meeting of Shareholders. According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and one-time payments at the retirement date.

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21 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities. These legal entities are further aggregated into two reportable segments: Oil transportation and Oil product transportation. Cost elements presented to Management of the Group are determined in accordance with the Russian Accounting Rules (RAR). Tables below present consolidated amounts analysed by Management of the Group. These amounts are calculated under RAR.

Adjusting entries to reconcile this information with information in the consolidated interim condensed financial statements primarily include adjustments and reclassifications resulting from differences between RAR and IFRS.

Segment information for the three months ended 31 March 2011 and at 31 March 2010 is as follows:

Three months ended 31 March 2011	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Sales				
Sales to third parties	139,824	9,406	(49)	149,181
Inter-segment sales	324	992	(1,316)	-
Total sales	140,148	10,398	(1,365)	149,181
Operating expenses	(88,309)	(4,965)	(5,138)	(98,412)
Depreciation and amortisation	(18,785)	(726)	(292)	(19,803)
Interest income	3,305	45	405	3,755
Interest expenses	(5,171)	(147)	(759)	(6,077)
Share of profit from associates and jointly controlled entities	-	-	30,438	30,438
Profit before income tax	98,539	5,944	(4,901)	99,582
Income tax expense	(16,156)	(2,290)	4,322	(14,124)
Profit for the year	82,383	3,654	(579)	85,458
Other segment disclosures				
Additions to non-current assets (other than financial instruments and deferred tax assets)	67,783	580	(7,814)	60,549

Three months ended 31 March 2010	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Sales				
Sales to third parties	95,299	7,303	183	102,785
Inter-segment sales	190	287	(477)	-
Total sales	95,489	7,590	(294)	102,785
Operating expenses	(56,232)	(4,181)	(325)	(60,738)
Depreciation and amortisation	(16,249)	(658)	858	(16,049)
Interest income	3,683	60	(3,123)	620
Interest expenses	(7,147)	(322)	3,415	(4,054)
Share of profit from associates	-	-	360	360
Profit before income tax	40,987	3,443	1,306	45,736
Income tax expense	(9,421)	(768)	(710)	(10,899)
Profit for the year	31,566	2,675	596	34,837
Other segment disclosures				
Additions to non-current assets (other than financial instruments and deferred tax assets)	46,482	344	(319)	46,507

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21 SEGMENT INFORMATION (continued)

Adjusting entries also relate to intersegment transactions, those which are material, are as follows: US Dollar denominated loan and interests granted in RUB which amounted to RUB 8,947 as at 31 March 2011, the loan interest payable of RUB - 147 and related exchange difference of RUB - 642 (as at 31 December 2010 US Dollar denominated loan granted in RUB including interest receivable which amounted to RUB 9,628, loan interest payable of RUB -1 113 and related exchange difference of RUB -21).

Segment information as at 31 March 2011 and at 31 December 2010 is as follows:

31 March 2011	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates and jointly controlled entities	-	-	35,245	35,245
Total segment assets	1,707,799	64,785	(45,318)	1,727,266
Trade payables and advances received	77,647	2,161	(2,495)	77,313
Non-current borrowings	545,386	7,194	(7,194)	545,386
Current borrowings	11,099	1,753	(2,688)	10,164
Total segment liabilities	723,048	14,850	97,184	835,082

31 December 2010	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates	-	-	4,835	4,835
Total segment assets	1,620,060	62,123	(30,548)	1,651,635
Trade payables and advances received	57,369	3,027	999	61,395
Non-current borrowings	573,466	8,227	(8,545)	573,148
Current borrowings	11,269	1,450	(2,064)	10,655
Total segment liabilities	719,504	15,755	109,939	845,198

Adjustments to income and expenses that form profit before tax are mainly represented by IFRS adjustments to record non-controlling interest, to recognise fixed assets revaluation results required under IAS 29 *Financial reporting in hyper-inflationary economies* and elimination of fixed assets revaluation results performed under RAR, to accrue provision for dismantling and removing of fixed assets and to accrue deferred taxes for IFRS purposes.

Adjusting items for segment's expenses in the amount of RUB 5,138 for the three months ended 31 March 2011 and RUB 325 for the three months ended 31 March 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Dismantlement provision	904	657
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(1,731)	(3,091)
Financial leasing	604	624
Pension liabilities	(107)	732
Other expenses, net	1,408	893
Intersegment operations	(160)	(287)
Accruals	2,439	-
Reserves for contingent liabilities	865	-
Others	916	797
Total reconciliation adjustments of segment expenses	5,138	325

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21 SEGMENT INFORMATION (continued)

Adjusting items for segment's assets in the amount of RUB 45,318 as at 31 March 2011 and RUB 30,548 as at 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 March 2011	31 December 2010
Property, plant and equipment dismantlement provision recognized in cost	73,846	83,760
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(91,908)	(93,639)
Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies and other	51,506	50,716
Business combination with Transneftproduct	(52,554)	(52,554)
Deferred tax assets	(10,025)	(9,000)
Intersegment assets	(13,749)	(9,677)
Electricity liabilities	(2,100)	
VAT not refund from budget	(696)	-
Others	362	(154)
Total reconciliation adjustments of segment assets	(45,318)	(30,548)

Adjusting items for segment's liabilities in the amount of RUB 97,184 as at 31 March 2011 and RUB 109,939 as at 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 March 2011	31 December 2010
Dismantlement provision	109,378	116,202
Pension liabilities	7,415	7,377
Deferred tax liabilities	(5,084)	(1,037)
Intersegment liabilities	(13,749)	(9,677)
Tax liabilities	865	-
Electricity liabilities	339	-
Others	(1,980)	(2,926)
Total reconciliation adjustments of segment liabilities	97,184	109,939

Geographical information. The Group's two segments primary operate on the territory of the Russian Federation. Revenue from external customers is presented based on the customers domicile (registered office) although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of Latvia, Ukraine and Belarus.

Information on the geographical location of the Group's revenue is set out below:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Russian Federation	120,168	97,327
China	22,367	-
Other countries	6,646	5,458
	149,181	102,785

Revenue from external customers in other countries mainly includes revenue from services provided to customers in Kazakhstan, Belorussia, Ukraine.

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21 SEGMENT INFORMATION (continued)

Major customers. The Group's major customers are oil production companies which produce oil and transport it for export, domestic sale or refining.

Revenues from customers which individually constitute 10 per cent or more of the Group's revenue are as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Companies under control of the Government of the Russian Federation	41,420	30,502
OAO Surgutneftegaz	17,706	14,447
OAO Lukoil	15,860	14,475
OAO TNK-BP Holding	15,658	13,108
	90,644	72,532

Sales to the major customers are included in the results of the crude oil transportation and oil product transportation segments.

22 SUBSEQUENT EVENTS

In May 2011 the coupon rate for the third coupon period was determined for nonconvertible interest bearing documentary bonds of the 01 series. The interest rate of the second coupon is 10.00% per annum.